

ORIGINAL

OPEN MEETING AGENDA ITEM



0000140899

December 10, 2012

RECEIVED

2012 DEC 10 P 2:18

ALL CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

DEC 10 2012



a|i|c

Chairman Gary Pierce
Commissioner Bob Stump
Commissioner Sandra D. Kennedy
Commissioner Paul Newman
Commissioner Brenda Burns
Arizona Corporation Commission
Commissioners Wing
1200 W. Washington
Phoenix, Arizona 85007

Re: ACC Docket No. W-00000C-06-0149

Dear Commissioners:

The Arizona Investment Council ("AIC") greatly appreciates your consideration of, and actions on, techniques to improve the ratemaking process. Those innovations assure that consumers can avoid sudden and large rate increases related to investments in infrastructure improvements necessary for the safe and adequate delivery of utility services.

In recent decisions involving energy companies, the Commission has authorized innovative adjustment clauses, rate designs and other streamlined procedures that promote rate gradualism and avoid the sudden large price spikes that can result when regulatory decisions accompanying infrastructure investments are delayed. Those mechanisms include revenue decoupling and lost fixed cost recovery mechanisms, the inclusion of post-test year plant in rate base and cost adjusters for the costs of required environmental controls, transmission, renewable investments, energy efficiency programs and others.

It is now time for the Commission to implement similar innovative rate mechanisms for infrastructure investments in water and wastewater facilities. Many of the ideas for reforming the ratemaking process have been thoroughly investigated and discussed at the Commission since the late 1990s. They've also been presented in reports and testimony at Commission proceedings. Among the numerous reports on these subjects is the AIC's 2008 White Paper, which offered several recommendations for implementing rate gradualism and other regulatory reforms for water and wastewater companies.

AIC Recommendation

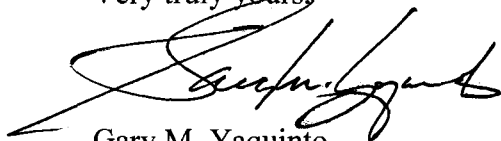
AIC urges the Commission—at its earliest opportunity—to issue a Policy Statement to guide water and wastewater utilities, its Staff, consumers and other stakeholder groups on implementation of ratemaking and other regulatory reforms for the regulated water and wastewater industries in our State.

In particular, AIC believes the Policy Statement should address, at a minimum, the following:

- **Distribution System Improvement Charges (“DSICs”).** DSICs provide a dedicated funding source for replacing aging infrastructure. Their benefits include: a continuing and stable source of investment funds for replacing aging infrastructure; the lessening of rate spikes and encouragement of rate gradualism; reduced pressure on future rate increases; and improvements to system reliability and service delivery.
- **Implementation of Rate Designs for Water Conservation and Financial Stability.** The Commission has implemented rate designs, such as inverted block rates to encourage conservation of Arizona’s most precious resource. It is now time to rethink rate design to enable the water utilities both to encourage customers to conserve, while also maintaining their financial stability. One way to do this is to better allocate fixed costs to the basic service charge. Arizonans for Responsible Water Policy (“ARWP”) recommends the Commission set a minimum ratio of 50% of required revenue from the basic service charge and 50% from charges on consumption and AIC supports that approach.
- **Industry Consolidation.** Currently, the Commission oversees and regulates some 400 water and wastewater operations. Not only is this incredibly resource-intensive for the Commission, it also means customers are denied the benefits of superior service, lower costs and lower rates that come from the economies of scale inherent in larger, consolidated operations. The Commission should not discourage consolidation through its regulatory treatment of acquisition adjustments and developer contributed capital. Instead, ARWP recommends that voluntarily contributed developer capital have no effect on rate base and simply be treated as an offset to any acquisition premium. AIC supports this approach.
- **Implementation of Rate Consolidation.** Finally, we recommend that rates be consolidated across systems and areas, because this is the most economically efficient way to deliver high-quality, low-cost water and wastewater services to customers.

AIC thanks the Commission for its continued efforts to improve regulatory processes and to implement innovative rate designs so as to lessen consumer rate impacts while fostering efficient delivery of water and wastewater services.

Very truly yours,



Gary M. Yaquinto
President

Original and 15 copies filed with Docket
Control this 10th day of December 2012